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ALBERTA ELECTRIC ENERGY MARKETING AGENCY

86-05819/

Alberta
UTILITIES AND
TELECOMMUNICATIONS

228 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-3016

Office of the Minister

Honourable G. Amerongen, Speaker
Legislative Assembly of Alberta
325 Legislature Building
Edmonton, Alberta
T5K 2B6

Sir:

It is my pleasure to submit the Annual Report of the Electric Energy Marketing Agency for the year ended March 31, 1985.

Respectfully submitted,

Bob Bogle, Minister
Utilities and Telecommunications

OFFICE OF THE CHAIRMAN

ALBERTA ELECTRIC ENERGY MARKETING AGENCY

Suite 711, 400 - 4th Ave., Lethbridge, Alberta T1J 4E1 Phone (403) 329-5384

The Honourable Bob Bogle
Minister of Utilities and
Telecommunications

Sir:

It is with pleasure that I submit a report covering the activities of the Electric Energy Marketing Agency for the fiscal year ended March 31, 1985.

Respectfully submitted,

James R. Dunstan
Chairman

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# ALBERTA ELECTRIC ENERGY MARKETING AGENCY
## FINANCIAL STATEMENTS
## MARCH 31, 1985

Auditor's Report

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ALBERTA LEGISLATURE

OFFICE OF THE AUDITOR GENERAL

# AUDITOR'S REPORT

To the Minister of Utilities
and Telecommunications

I have examined the balance sheet of the Alberta Electric Energy Marketing Agency as at March 31, 1985 and the statements of capital surplus and revenue and expenditure for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Agency as at March 31, 1985 and the results of its operations for the year then ended in accordance with the disclosed basis of accounting, considered appropriate in the circumstances, as described in Note 2 to the financial statements applied on a basis consistent with that of the preceding year.

F.C.A.
Auditor General

Edmonton, Alberta
April 17, 1985

## ALBERTA ELECTRIC ENERGY MARKETING AGENCY
## BALANCE SHEET
## AS AT MARCH 31, 1985

| | 1985 | 1984 |
|---|---|---|
| **Assets** | | |
| Current: | | |
| Deposits in trust (Note 3) | $ 296,867 | $ 4,741,345 |
| Accounts receivable | — | 1,576,684 |
| Prepaid expenses | — | 1,219 |
| | 296,867 | 6,319,248 |
| Fixed: | | |
| Equipment, at cost | 44,363 | 21,884 |
| | $ 341,230 | $ 6,341,132 |
| **Liabilities** | | |
| Current: | | |
| Accounts payable | $ 35,664 | $ 2,009,542 |
| Due to the Province of Alberta | 261,203 | 4,309,706 |
| Capital surplus | 44,363 | 21,884 |
| | $ 341,230 | $ 6,341,132 |

The accompanying notes are part of these financial statements.

## ALBERTA ELECTRIC ENERGY MARKETING AGENCY
## STATEMENT OF CAPITAL SURPLUS
## FOR THE YEAR ENDED MARCH 31, 1985

| | 1985 | 1984 |
|---|---|---|
| Balance at beginning of year | $ 21,884 | 17,187 |
| Add: Purchases of equipment | 22,479 | 4,697 |
| Balance at end of year | $ 44,363 | $ 21,884 |

## ALBERTA ELECTRIC ENERGY MARKETING AGENCY
## STATEMENT OF REVENUE AND EXPENDITURE
## FOR THE YEAR ENDED MARCH 31, 1985

| | 1985 | 1984 |
|---|---|---|
| **Revenue** | | |
| Sales of electric energy | $841,311,198 | $812,492,851 |
| **Expenditure** | | |
| Purchases of electric energy | $841,311,198 | $812,492,851 |
| Shielding grants | 36,691,030 | 57,141,631 |
| Operating expenses, Schedule 1 | 412,584 | 466,384 |
| Interest, net (Note 4) | 199,644 | (210,231) |
| | 878,614,456 | 869,890,635 |
| Excess of expenditure over revenue | 37,303,258 | 57,397,784 |
| Contribution by the Province of Alberta | 37,303,258 | 57,397,784 |
| | $ — | $ — |

# ALBERTA ELECTRIC ENERGY MARKETING AGENCY
# NOTES TO THE FINANCIAL STATEMENTS
# MARCH 31, 1985

Note 1 **Authority**

The Alberta Electric Energy Marketing Agency operates under the authority of the Electric Energy Marketing Act, Chapter E-4.1, Statutes of Alberta 1981. Shielding grants are paid pursuant to the Department of Utilities and Telecommunications Act, Chapter D-31, Revised Statutes of Alberta 1980.

Note 2 **Significant Accounting Policies**

(a) General:

These financial statements have been prepared in accordance with generally accepted accounting principles except that the cost of equipment is charged to operations in the year of acquisition. Equipment is shown in the balance sheet at cost, with an offsetting credit to capital surplus.

(b) Administration Expenses:

The costs of office accommodation and certain other administration expenses are provided from the General Revenue Fund of the Province of Alberta, and accordingly are not reflected in these financial statements.

(c) Approval by the Public Utilities Board:

In the past the price at which electric energy was sold to the Alberta Electric Energy Marketing Agency was subject to interim and final rates set by the Public Utilities Board. Any adjustment due to final rate approval was reflected in the current year. Under new regulations, effective January 1, 1985, the price of electric energy is set for the year by the Public Utilities Board.

(d) Changes in Financial Position:

A statement of changes in financial position is not provided as disclosure in these financial statements is considered to be adequate.

Note 3 **Deposits In Trust**

Deposits in trust consist of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. Interest of $344,156 (1984 - $385,982) earned on Deposits in Trust has been credited to the General Revenue Fund of the Province of Alberta, and accordingly is not reflected in these financial statements.

Note 4 **Interest, Net**

Interest, net, consists of interest charged to and received from utility companies on adjustments of the purchase and sale price of electric energy resulting from approval of final rates.

Note 5 **Contingency**

Certain Public Utilities Board rates established during the year were appealed and some payments made to the Agency were conditional pending the conclusion of this matter. The appeal process had not been concluded by the year end.

Note 6 **Restatement of Prior Year Figures**

The 1984 figures have been restated where necessary to conform to 1985 presentation.

Note 7 **Approval of Financial Statements**

These financial statements were approved by management.

**Schedule 1**

## ALBERTA ELECTRIC ENERGY MARKETING AGENCY
## SCHEDULE OF OPERATING EXPENSES
## FOR THE YEAR ENDED MARCH 31, 1985

| | 1985 | 1984 |
|---|---|---|
| Salaries and wages | $ 265,864 | $ 268,824 |
| Legal and consulting services | 43,732 | 103,542 |
| Employee benefits | 26,482 | 31,047 |
| Travel and hospitality | 26,353 | 22,342 |
| Equipment | 22,479 | 4,697 |
| Equipment rental | 9,317 | 6,720 |
| Printing, stationery and supplies | 8,011 | 12,796 |
| Books and periodicals | 7,268 | 13,501 |
| Freight, postage and telephone | 1,667 | 1,766 |
| Repair and maintenance | 1,411 | 1,149 |
| | $ 412,584 | $ 466,384 |

# FORWARD TO AGENCY REPORT

This is the third annual report submitted by the Alberta Electric Energy Marketing Agency (AEEMA) pursuant to statutory requirements.

The Electric Energy Marketing Act proclaimed April 15, 1982, the Electric Energy Marketing Act General Regulation, and subsequent amendments to both the Act and General Regulation provide the legislative mandate for the Agency to continue its work towards reducing electric energy cost differentials provincewide.

The Agency, subsequent to Public Utilities Board (PUB) orders, purchases all the electric energy produced by TransAlta Utilities Corporation (TAU), Alberta Power Limited (APL), and the City of Edmonton (Edmonton Power) (EP) at the end of generation and transmission, pools those energy costs and sells the energy at a pooled price back to the three utilities. As there were legislative amendments during the later part of the year, the purchase, pooling and re-sale of electric energy by the Agency for the last quarter of the fiscal year was done by consumer group as defined in the General Regulation. Pooling results in the transfer of payments between the utility companies as discussed under a separate heading.

The Electric Energy Marketing Agency does not set final rates. While the price out of the Agency reflects a blending of that portion of electrical charges related only to generation and transmission as established by Public Utilities Board orders for prices into the Agency, it is worth highlighting that the Agency is not involved with setting the final rates. The total bill will continue to vary dependent upon downstream costs associated primarily with distribution. This is consistent with the original intent of the legislation whereby some equalization of the costs associated with generation and transmission was to be addressed while preserving a proven and well regarded regulatory system as well as a viable, effective electric utility industry with varied ownership.

While the Public Utilities Board continues to set final rates at which investor-owned utilities can sell electric energy to their direct customers, the municipalities set the charges for their customers. In the case of the customers of Edmonton Power which is a municipally owned utility, Edmonton City Council sets the rates customers pay.

The Agency administers a shielding program which is incrementally being reduced and is scheduled to expire in 1987. This program shields, through the utility companies, the customers of the low-cost producers of electric energy thus allowing for a phased-in adjustment to the provincially pooled cost of electric energy at the end of generation and transmission.

Provincial shielding payments between April 1984 and March 1985 totalled $35,895,190 (gross). Shielding is discussed further under a separate heading.

Well in advance of the commencement of Agency operations, the City of Medicine Hat was in the unique position of owning both a power plant and the gas to fire a plant. Hence they are non-participatory in the Agency.

For purposes of the Utility Companies Income Tax Rebates Act only, the Agency has been designated as a wholesale customer of the three generating utilities. As such, in Alberta, 95 percent of the federal income tax paid by the utility companies and 100 percent of the provincial income tax is flowed back to the utilities for the benefit of their customers. This rebate is administered by the Provincial Treasurer.

As an administrative body, the Agency performs its function upon the receipt of orders out of the Public Utilities Board (PUB) pursuant to applications to the PUB by the three generating utilities for prices into the Agency.

For the year ended March 31, 1985 the Agency's total purchases were $848,109,816 (gross) as displayed in Table 1. The amount of energy purchased is shown in Table 2.

The Agency continues to be an observing member of the Electric Utility Planning Council (EUPC).

**TABLE 1**

**ALBERTA ELECTRIC ENERGY MARKETING AGENCY**
**PURCHASE OF ELECTRIC ENERGY FROM UTILITIES**
**FOR THE YEAR ENDED MARCH 31, 1985**
**(AFTER INCOME TAX REBATE)**

| | Alberta Power Ltd. | Edmonton Power | TransAlta Utilities | Total |
|---|---|---|---|---|
| April 1984 | $ 13,597,258 | $ 12,901,107 | $ 41,590,084 | $ 68,088,449 |
| June 1984 | 13,598,429 | 13,134,300 | 41,621,840 | 68,354,569 |
| August 1984 | 13,626,518 | 13,609,055 | 41,898,332 | 69,133,905 |
| October 1984 | 13,674,505 | 13,661,025 | 42,268,222 | 69,603,752 |
| December 1984 | 14,222,252 | 14,249,553 | 42,810,168 | 71,281,973 |
| February 1985 | 14,458,417 | 15,084,500 | 45,513,267 | 75,056,184 |
| TOTAL | $167,157,397 | $166,425,878 | $514,526,541 | $848,109,816* |

* This total is a gross total. The net total is $841,311,198 which includes adjustments made for months prior to April 1984.

**TABLE 2**
**ALBERTA ELECTRIC ENERGY MARKETING AGENCY**
**ENERGY PURCHASED FROM UTILITIES**
**FOR THE YEAR ENDED MARCH 31, 1985**
**(in GW.h)**

| | Alberta Power Ltd. | Edmonton Power | TransAlta Utilities | Total |
|---|---|---|---|---|
| April 1984 | 297.1 | 375.8 | 1312.54 | 1985.44 |
| June 1984 | 297.2 | 388.7 | 1321.20 | 2007.10 |
| August 1984 | 299.6 | 422.5 | 1396.60 | 2118.70 |
| October 1984 | 303.7 | 426.2 | 1497.47 | 2227.37 |
| December 1984 | 350.5 | 468.1 | 1645.26 | 2463.86 |
| February 1985 | 336.8775 | 427.0797 | 1504.7693 | 2268.7265 |
| TOTAL | 3804.7325 | 4994.2391 | 17329.6179 | 26128.5895 |

# LEGISLATIVE AND REGULATION AMENDMENTS

In a June 29, 1984 Public Utilities Board Decision on the 1983 TransAlta Utilities General Rate Application, it was identified that while the Public Utilities Board affixed rates at the end of generation and transmission, the effect of the Electric Energy Marketing Agency was not recognized. As a result, the EEMA effect had been identified as a rate rider (Alberta Power) or a rate levy (TransAlta) depending on whether a company was the recipient of transfer funds or the contributor in the transfer of funds for the benefit of the consumer. Consequently, the legislation was reviewed with the objective of realigning the process with the original intent.

On November 13, 1984 Royal Assent was given amendments to both the Electric Energy Marketing Act and the Public Utilities Board Act. An amended Electric Energy Marketing Act General Regulation was effective January 1, 1985. The key thrust of these amendments results in each of the three utility companies having costs into the Agency by three consumer groups: residential/farm, large industrial, and general service. These costs continue to be set by the Public Utilities Board. Accordingly, after Agency pooling, there are three prices out of the Agency, by consumer group, to each of the utility companies.

Also as a result of those changes, the reimbursement of Calgary, Lethbridge and Red Deer for transmission lines within their municipal boundaries forms part of the pooling process effective January 1, 1985. The 1985 monthly reimbursements are Calgary $2,024,000, Lethbridge $99,200, and Red Deer $69,400.

The new Regulation requires every identified owner of a public utility, identified municipality and rural electrification association to inform all the customers in the residential/farm consumer group who are served by it of the provincially pooled cost of generation and transmission. This is to be done by including the cost, as a specific notation, in the bill for electric energy rendered to that customer. The 1985 provincially pooled cost of generation and transmission for the residential/farm group is 4.37¢/kWh.

The administrative operations of the Agency focus on two separate concepts: pooling and shielding.

**Pooling**

This is the key administrative task of the Electric Energy Marketing Agency. In essence, it is the mechanism by which some equalization of costs associated with generation and transmission can be achieved province-wide. Those costs represent approximately eighty percent of the average customer bill. The pooling mechanism also encourages the attainment of a high degree of economic dispatch within the system. A positive aspect since the beginning of the program in September 1982 saw rates in the parts of northern Alberta served by Alberta Power reduced.

Before Agency work commences, applications for a price into the Agency are made to the Public Utilities Board by TransAlta Utilities Corporation, Alberta Power Limited, and the City of Edmonton (Edmonton Power). Subsequently the Public Utilities Board issues orders identifying the costs at which each utility will sell electric energy to the Agency. Working with these orders and utility invoices, the Agency then blends or pools the cost of electric energy to the interface points and sells the energy to the three utilities at the same interface points for the duration of the PUB order.

During the last quarter of the fiscal year, the sale, pooling and re-sale took place by consumer group pursuant to the General Regulation.

Pooling results in the transfer of payments between the utility companies as shown in Table 3. As well, the cities of Calgary, Lethbridge and Red Deer are being compensated from the transfer pool for municipally owned transmission lines. As mentioned previously, this was effective January 1985, and the monthly total for these cities is $2,192,600.

**TABLE 3**
**ALBERTA ELECTRIC ENERGY MARKETING AGENCY**
**TRANSFER PAYMENTS TO UTILITY COMPANIES**
**FOR THE YEAR ENDED MARCH 31, 1985**

| | Alberta Power Ltd. | Edmonton Power | TransAlta Utilities | Total |
|---|---|---|---|---|
| April 1984 | $ 3,752,723 | $ (249,480) | $ (501,065) | $ 3,002,178 |
| May 1984 | 3,774,773 | (219,366) | (535,589) | 3,019,818 |
| June 1984 | 3,735,971 | (225,242) | (521,952) | 2,988,777 |
| July 1984 | 3,769,280 | (185,009) | (569,793) | 3,014,008 |
| August 1984 | 3,745,745 | (177,230) | (571,919) | 2,996,596 |
| September 1984 | 3,714,834 | (448,466) | (1,037,466) | 2,228,901 |
| October 1984 | 3,803,330 | (322,638) | (1,198,694) | 2,281,998 |
| November 1984 | 4,040,129 | (273,299) | (1,342,757) | 2,424,077 |
| December 1984 | 4,201,555 | ( 7,486) | (1,673,136) | 2,520,933 |
| January 1985 | 3,272,427 | 877,920 | (2,537,179) | 1,613,168 |
| February 1985 | 3,272,427 | 877,920 | (2,537,179) | 1,613,168 |
| March 1985 | 3,272,427 | 877,920 | (2,537,179) | 1,613,168 |
| TOTAL | $ 44,354,601 | $ 521,699 | $(15,558,910) | $ 29,317,390 |

## Shielding

During the equalization phase, provincial shielding by utility company is being administered to help offset the increase of costs to those consumers in areas where generation and transmission costs are lower than average. This program is incrementally being reduced and is scheduled to be phased out in 1987. During this fiscal year, shielding was at the 80% level until August 31, 1984 at which time it was reduced to 60%. This is the level in place at the end of the fiscal year.

The value of shielding between April 1984 and March 1985 is $35,895,190 (gross) as shown in Table 4.

**TABLE 4**
**ALBERTA ELECTRIC ENERGY MARKETING AGENCY**
**SHIELDING TO UTILITY COMPANIES**
**FOR THE YEAR ENDED MARCH 31, 1985**

| | Alberta Power Ltd. | Edmonton Power | TransAlta Utilities | Total |
|---|---|---|---|---|
| April 1984 | $ 0 | $ 997,920 | $ 2,004,258 | $3,002,178 |
| May 1984 | 0 | 877,463 | 2,142,355 | 3,019,818 |
| June 1984 | 0 | 900,969 | 2,087,808 | 2,988,777 |
| July 1984 | 0 | 755,436 | 2,259,172 | 3,014,608 |
| August 1984 | 0 | 708,920 | 2,287,676 | 2,996,596 |
| September 1984 | 0 | 672,698 | 1,556,203 | 2,228,901 |
| October 1984 | 0 | 483,958 | 1,798,040 | 2,281,998 |
| November 1984 | 0 | 409,942 | 2,014,135 | 2,424,077 |
| December 1984 | 0 | 11,230 | 2,509,703 | 2,520,933 |
| January 1985 | 0 | 0 | 3,805,768 | 3,805,768 |
| February 1985 | 0 | 0 | 3,805,768 | 3,805,768 |
| March 1985 | 0 | 0 | 3,805,768 | 3,805,768 |
| TOTAL | $ 0 | $ 5,818,536 | $ 30,076,654 | $ 35,895,190* |

*This total is a gross total. The net total is $36,691,030 which includes adjustments made for months prior to April 1984.

The Shielding program commenced with Agency operations on September 1, 1982. Initially it provided 100% shielding for one year to the customers of TransAlta Utilities from rate increases due to pooling of TransAlta's costs with the higher-priced Alberta Power and Edmonton Power costs.

This section presents an overview of benefits through Agency operations by calendar year from the commencement of Agency operations in September 1982 to the end of March 1985. As the calendar year is used by the Public Utilities Board for purposes of orders affecting the Agency, it is also used here.

Two types of benefits can be identified; pooling benefits, and shielding benefits. As mentioned previously, pooling benefits reflect transfers that result from the pooling of costs, the other reflects provincial shielding.

The values of pooling benefits and shielding are shown in Tables 5 and 6.

It is noted that during the complete time period that the Agency has been in operation, to the benefit of their customers, Alberta Power Limited benefited $133,294,408 from the transfer pool. During the same time period Edmonton Power benefited $29,597,318 from the transfer pool except for the year 1984 during which time Edmonton Power received the benefit of $9,303,657 in provincial shielding. However, with legislative changes effective January 1, 1985, Edmonton Power is receiving from the transfer pool a monthly amount of $877,920.

As TransAlta Utilities continues to be the low cost producer, customers in their franchise area are being shielded allowing for a phased-in adjustment to the pooled cost of electric energy at the end of generation and transmission. As mentioned earlier, shielding is being incrementally reduced and since the inception of the program amounts to $136,369,358 for TransAlta Utilities customers.

**TABLE 5**
**POOLING BENEFITS**
**FOR THE PERIOD SEPTEMBER 1, 1982 TO MARCH 31, 1985**
**BY CALENDAR YEAR**

| | 1982 | 1983 | 1984 | 1985 | Total |
|---|---|---|---|---|---|
| Alberta Power Ltd. | $20,046,742 | $56,562,811 | $46,867,574 | $ 9,817,281 | $133,294,408 |
| Edmonton Power | 14,564,367 | 12,399,191 | 0 | 2,633,760 | 29,597,318 |
| TransAlta Utilities | 0 | 0 | 0 | 0 | 0 |
| TOTAL | $34,611,109 | $68,962,002 | $46,867,574 | $12,451,041 | $162,891,726 |

**TABLE 6**
**SHIELDING BENEFITS**
**FOR THE PERIOD SEPTEMBER 1, 1982 TO MARCH 31, 1985**
**BY CALENDAR YEAR**

| | 1982 | 1983 | 1984 | 1985 | Total |
|---|---|---|---|---|---|
| Alberta Power Ltd. | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Edmonton Power | 0 | 0 | 9,303,657 | 0 | 9,303,657 |
| TransAlta Utilities | 34,611,109 | 64,744,512 | 25,596,433 | 11,417,304 | 136,369,358 |
| TOTAL | $34,611,109 | $64,744,512 | $34,900,090 | $11,417,304 | $145,673,015 |

Table 7 presents the net transfer pool and shielding payment summary from the beginning of Agency operations in September 1982 to March 31, 1985. For the interest of the reader, this summary is provided as an historic reflection of the transition from September 1982 through the realignment process subsequent to legislative and regulation amendments as previously addressed.

**TABLE 7**
**SUMMARY OF TRANSFER POOL AND SHIELDING PAYMENTS TO UTILITY COMPANIES FROM THE BEGINNING OF AGENCY OPERATIONS TO MARCH 31, 1985 (NET)**

| | Alberta Power Ltd. | Edmonton Power | TransAlta Utilities |
|---|---|---|---|
| 1982* | $ 20,046,742 | $14,564,367 | $ 0 |
| 1983 | 56,562,811 | 12,399,191 | (4,217,480) |
| 1984 | 46,867,574 | (2,983,340) | (8,984,144) |
| 1985** | 9,817,281 | 2,633,760 | (7,611,537) |
| **TOTAL Benefit / (Cost)** Sept. 1982 - March 1985 | $133,294,408 | $26,613,978 | $(20,813,171) |

* September to December
** January to March